

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15
STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02 OMB-01
DOE-15 /111 W
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P R 202130Z ARR 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 7203
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 1 OF 2 BRASILIA 3223
EO 11652 NA
TAGS ETRD EFIN BR
SUBJECT: OFFICIALLY SUPPORTED EXPORT CREDITS

REF STATE 83355

1. FOLLOWING IS INFORMATION REQUESTED IN REFTTEL ON BRAZILIAN EXPORT CREDIT SYSTEM. AS NOTED BELOW, THERE ARE TWO PRINCIPAL AGENCIES RESPONSIBLE FOR THIS AREA, ONE SUPPLYING CREDIT INSURANCE AND THE OTHER PROVIDING THE CREDITS THEMSELVES. INFORMATION ON CREDIT INSURANCE IS COMPLETE AND UP TO DATE. HOWEVER, INFORMATION CURRENTLY AVAILABLE ON THE TERMS FOR EXPORT CREDITS WILL BE SUPPLEMENTED WITH A CACEX COMMUNIQUE EXPECTED AT THE END OF APRIL. IN GENERAL, THE TERMS AND CONDITIONS OF BRAZILIAN EXPORT CREDITS GRNRANTED TO DATE HAVE USED IDB ORDINARY CAPITAL LENDING RATES AS A GUIDELINE. CACEX OFFICIALS SAID THAT THIS GUIDELINE IS VERY FLEXIBLE, WITH CONDITIONS VEARYING WIDELY FOR DIFFERENT PRODUCTS AND EXPORT MARKETS. CENTRAL BANK OFFICIALS STRESSED THAT THE OBJECTIVE IS TO ESTABLISH TERMS CONSISTENT WITH THOSE ENJOYED BY NON-BRRAZILIAN EXPORTERS. THE FACT IS THAT EXPORT CREDITS ARE PROVIDED AT SIGNIFICANTLY SUBSIDIZED INTEREST RATES, COMPARED TO VERY
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HIGH PREVAILING MARKET RATES REFLECTING BRAZILIAN DOMESTIC INFLATION. THE HIGHLY ATTRACRIVE RATES FOR EXPORT CREDITS ARE NOT EXPECTED TO BE CHANGED IN ANY SUBSTANTIAL WAY. MOREOVER, THE GUIDELINES TO BE PUBLISHED AT THE END OF THE MONTH WILL INDICATE ONLY GENERAL RULES AND NOT RIGIDLY FIXED RATES. THIS INFORMATION WILL BE FORWARDED TO THE DEPARTMENT AS SOON AS PUBLISHED.

2. LISTED BELOW ARE REPLIES TO SPECIFIC QUESTIONS, FOLLOWING THE
FORMAT USED IN PARA 5 OF REFTEL.

A. NAME OF OFFICIAL EXPORT CREDIT AGENCY:

- FOR EXPORT CREDITS: FUNDO DE FINANCIAMENTO A EXPORTACAO -
FINEX (EXPORT FINANCING FUND). THIS FUND IS ADMINISTERED BY
CACEX (THE FOREIGN TRADE DEPARTMENT OF THE BANCO DO BRASIL).

- FOR CREDIT INSURANCE: INSTITUTO DE RESSEGUROS DO BRASIL-
IRB (BRAZILIAN REINSURANCE INSTITUTE).

B. RELATIONSHIP TO GOB:

- FINEX : FUND RESOURCES PROVIDED BY THE CENTRAL BANK.

- CACEX: THIS AGENCY ADMINISTERS FINEX AND IS PART OF THE GOB-
OWNED BANCO DO BRASIL, NOW A COMMERCIAL BANK BUT RETAINING SOME
CENTRAL BANK FUNCTIONS. BOTH THE CENTRAL BANK AND THE BANCO
DO BRASIL REPORT TO THE MINISTRY OF FINANCE.

- IRB: PART OF THE MINISTRY OF INDUSTRY AND COMMERCE. (NOTE:
THE IRB ALSO HAS PRIVATE INSURANCE COMPANY PARTICIPATION.)

C. METHOD OF FINANCING:

-CREDIT INSURANCE: PROVIDED BY IRB.

- GUARANTEES OF CREDIT: PROVIDED BY CACEX

- FINANCING: PROVIDED TO BOTH BUYERS AND SELLERS BY CACEX
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USING FINEX RESOURCES. (NOTE: SUPPLIER CREDITS ARE MORE PREVALENT
THAN BUYER CREDITS.)

D. SOURCE OF CREDIT: FINEX RESOURCES ARE DESIGNATED EACH YEAR
AS A LINE ITEM IN THE ANNUAL NATIONAL MONETARY BUDGET OR PROGRAM.
THESE FUNDS ARE PROVIDED BY THE CENTRAL BANK (I.E., THEY ARE NOT
REPEAT NOT APPROPRIATED AND ARE NOT REFLECTED IN THE TREASURY
BUDGET)
AND ARE REPASSED THROUGH CACEX TO COMMERCIAL AND INVESTMENT
BANKS AND THEN TO THE EXPORTERS.

E. CHARGES/COSTS.

E.1. PREMIUM RATE FOR INSURANCE: PREMIUM RATES VARY ACCORDING TO
THE TYPE OF RISK COVERED (COMMERCIAL VS. POLITICAL, THE LENGTH OF
THE CONTRACT, THE COUNTRY IN WHICH THE CREDIT HAS BEEN EXTENDED,
AND THE TYPE OF PRODUCTS EXPORTED. AVERAGE RATES ARE : 2.4 PERCENT
(ANNUALLY) FOR COMMERCIAL RISK AND 1.44 PERCENT (ANNUALLY) FOR
POLITICAT RISK.

E.1. THROUGH 6: CREDIT RATES GENERALLY FOLLOW TERMS USED BY IDB
ALTHOUGH WIDE VARIATIONS EXIST. CACEX AND CENTRAL BANK OFFICIALS
NOTE THAT RATES ARE DETERMINED PARTIALLY IN VIEW OF NEED TO MAKE

BRAZILIAN EXPORTS COMPETITIVE IN GIVEN EXPORT MARKETS. CURRENTLY
THE AVERAGE INTEREST CHARGE ON EXPORT CREDITS
IS PROBABLY ABOUT 7 TO 10 PERCENT (CCOMPARED WITH MARKET RATES
OF 45-50 PERCENT).

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WHICH REFLECT ANNUAL DOMESTIC INFLATION OF 35-40
PERCENT AND THE WIDESPREAD APPLICATION OF MONETARY
CORRECTION (INDEXING) TO FINANCIAL INSTRUMENTS,
INCLUDING CERTAIN KINDS OF SAVINGS DEPOSITS. EMBASSY
WILL SUBMIT SUPPLEMENTARY INFORMATION ON RATES
AND FEES WHEN A CACEX COMMUNIQUE BECOMES AVAILABLE
AFTER THE END OF APRIL.

F. RISKS ASSUMED BY EXPORT CREDIT AGENCY:

- FOR IRB CREDIT INSURANCE: COMMERCIAL RISK COVERED
UP TO 85 PERCENT OF CONTRACT PRICE;

- POLITICAL RISK COVERED UP TO 90 PERCENT OF CON-
TRACT PRICE.

G. CASH PAYMENTS: 15 PERCENT OF VALUE OF EXPORT.

H. SUPPLIER PARTICIPATION: FOR EXPORT CREDIT: CACEX
USUALLY REQUIRES 10 PERCENT SUPPLIER PARTICIPATION,
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ALTHOUGH THIS PERCENTAGE VARIES ON A CASE-BY-CASE

BASIS. FOR IRB INSURANCE: SUPPLIER PARTICIPATION
IN RISK IS AT LEAST 15 PERCENT FOR COMMERCIAL RISK
AND AT LEAST 10 PERCENT FOR POLITICAL RISK.

I. REPAYMENT TERMS:

- FOR EXPORT CREDIT: THE BULK OF EXPORT FINANCING
IS FOR TERMS OF 180 TO 360 DAYS. HOWEVER, TERMS WILL
VARY AMONG EXPORT PRODUCTS AND BY SIZE OF CONTRACT
AND MAY REACH 5 TO 8 YEARS. SUPPLEMENTARY INFORMATION
WILL BE PROVIDED AT THE END OF APRIL.

- FOR IRB INSURANCE: INSURANCE CONTRACTS ARE
AVAILABLE ON SHORT TERM FOR 90 TO 180 DAYS AND ON
MEDIUM TERM FROM 6 MONTHS TO FIVE YEARS.

J. REPAYMENT TERMS FOR EXPORT CREDITS WILL VARY
ACCORDING TO THE VALUE OF THE CONTRACT. FIGURES WILL
BE PROVIDED AT END OF MONTH.

K. DEGREE OF SECURITY REQUIRED:

--FOR EXPORT CREDITS: SECURITY REQUIRED IS JUDGED
ON A CASE-BY-CASE BASIS. CACEX OFFICIALS NOTE THAT
SECURITY PROVIDED IS SECONDARY TO THEIR GOAL OF IN-
CREASING BRAZILIAN EXPORTS THROUGH CREDIT EXTENSIONS
AND, THEREFORE, LESS SECURITY IS NEEDED.

- FOR IRB INSURANCE: SECURITY ON CREDIT IS NOT
REQUIRED FOR INSURANCE CONTRACTS. HOWEVER, DISCOUNTS
ON PREMIUM RATES ARE AVAILABLE WHEN SECURITY IS PRO-
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VIDED. DISCOUNTS ARE 80 PERCENT FOR CREDITS SECURED
BY IRREVOCABLE LETTERS OF CREDITS FROM FOREIGN BANKS,
70 PERCENT WITH FOREIGN BANK GUARANTEES AND 40 PER-
CENT WHEN GUARANTEED BY A MAJOR FIRM.

L. OTHER REQUIREMENTS THAT MIGHT AFFECT THE COST
OF CREDIT: NONE.

M. CREDIT WORTHINESS RATING OF EXPORT MARKETS:
AS NOTED PREVIOUSLY, ENTIRE FIXEX AND IRB SYSTEM
IS ORIENTED TOWARD EXPORT PROMOTION AND IS QUITE

FLEXIBLE IN REGARD TO TERMS, PRODUCTS AND MARKETS.
FOR INSTANCE, BRAZIL IS ACTIVELY PROMOTING -- PARTLY
THROUGHUSEOF FINEX -- EXPORTS TO TURKEY ANDMO-
ZAMBIQUE, TWO COOUNTRIES CONSIDERED ASHIGH-RISK
MARKETS BY MOST EXPORTING NATIONS.

3. COMMENT. ALTHOUGH THE GOB HAS PROVIED SUBSIDIZED
EXPORT CREDITS THROUGH THE BANK OF BRAZIL FOR AT
LEAST 10 YEARS., THE EXPORT CREDIT FUND (FINEX) AD-
MINISTERED BY CACEX HAS BEEN IN OPERATION ONLY TWO
YEARS AND IS STILL DEFINING ITS SYSTEM OF OPERATIONS.
IN AN EFFORT TO LEARN MORE ABOUT EXPORT FINANCING,
CACEX HAS ARRANGED WITH EXIMBANK TO SEND A MIDDLE-
LEVEL OFFICIAL TO CONSULT FOR ONE WEEK DURING
JUNE, 1978. THIS MAY OFFER AN OPPORTUNITY TO
CONVEY BOTH U.S. VIEWS ON AND METHODS OF EXPORT
FINANCING TO THE GOB.

4. THIS MESSAGE PREPARED JOINTLY BY CONGEN RIO DE
JANEIRO AND EMBASSY BRASILIA.
JOHNSON

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*** Current Handling Restrictions *** n/a

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